

CONSOLIDATED RURAL WATER DISTRICT NO. 1
Shawnee County, Kansas

Year Ended December 31, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Consolidated Rural Water District No. 1
Shawnee County, Kansas

We have audited the accompanying financial statements of the Consolidated Rural Water District No. 1, Shawnee County, Kansas, as of and for the year ended December 31, 2012, which comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

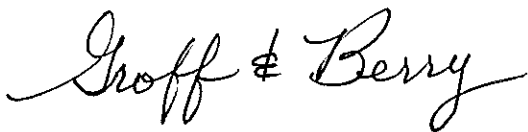
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Consolidated Rural Water District No. 1, Shawnee County, Kansas, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 14 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "Groff & Berry". The signature is written in dark ink and is positioned above the date and location text.

Topeka, Kansas
January 25, 2013

CONSOLIDATED RURAL WATER DISTRICT NO. 1
Shawnee County, Kansas

STATEMENT OF NET POSITION
December 31, 2012

ASSETS

Current assets:

Cash	\$ 359,478
Certificates of deposit	359,276
Accounts receivable	111,959
Inventory, at cost	147,809
Prepaid expense	<u>15,379</u>

Total current assets \$ 993,901

Noncurrent assets:

Bond reserve account 200,048

Capital assets:

Property, plant and equipment (Notes 2 and 3)	8,029,015	
Less: accumulated depreciation	<u>4,058,351</u>	3,970,664

Other assets:

Loan costs, less amortization of \$ 1,086 23,680

Total assets \$ 5,188,293

The accompanying notes are an integral part
of these financial statements.

CONSOLIDATED RURAL WATER DISTRICT NO. 1
Shawnee County, Kansas

STATEMENT OF NET POSITION
December 31, 2012

LIABILITIES AND NET ASSETS

Current portion of settlement payables	\$	50,000	
Current liabilities:			
Current maturities of long-term debt (Note 3)		225,000	
Accounts payable		70,749	
Accrued expenses:			
Taxes		1,165	
Interest		15,504	
Wages		<u>16,726</u>	
Total current liabilities			\$ 379,144
Noncurrent liabilities:			
Bonds payable		1,765,000	
Settlement payable		<u>100,000</u>	1,865,000
Invested in capital assets, net of related debt		1,980,664	
Restricted for debt service		200,048	
Unrestricted		<u>763,437</u>	
Total net assets			<u>2,944,149</u>
Total liabilities and net assets			\$ <u>5,188,293</u>

The accompanying notes are an integral part
of these financial statements.

CONSOLIDATED RURAL WATER DISTRICT NO. 1
Shawnee County, Kansas

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
Year Ended December 31, 2012

Operating revenues:		
Water sales	\$ 874,789	
Water sales - minimum	487,002	
Penalty charges	28,707	
Miscellaneous	<u>8,475</u>	\$ 1,398,973
Operating expenses:		
Depreciation	331,665	
Repairs and maintenance	29,191	
Utilities	31,181	
Wages	152,855	
Payroll taxes	10,377	
Water purchased	582,387	
Insurance	19,290	
Engineering	8,366	
Office expense	10,327	
Installation	3,066	
Professional fees	6,810	
Mileage	21,599	
Retirement	12,019	
Amortization	23,742	
Miscellaneous	<u>7,789</u>	<u>1,250,664</u>
Operating income		148,309
Nonoperating income (expense):		
Interest income	2,058	
Interest expense	(78,926)	
Extensions and installations	10,350	
Benefit units	<u>30,100</u>	
Total nonoperating loss		<u>(36,418)</u>
Changes in net assets		111,891
Net assets, beginning of period		<u>2,832,258</u>
Net assets, end of period		\$ <u><u>2,944,149</u></u>

The accompanying notes are an integral part
of these financial statements.

CONSOLIDATED RURAL WATER DISTRICT NO. 1
Shawnee County, Kansas

STATEMENT OF CASH FLOWS
Year Ended December 31, 2012

Cash flows from operating activities:		
Receipts from customers	\$ 1,400,190	
Payments to suppliers and employees	(866,130)	
Other receipts	<u>8,475</u>	
Net cash provided by operating activities		\$ 542,535
Cash flows from capital and related financing activities:		
New debt issued	1,990,000	
Principal paid on debt	(2,576,223)	
Interest paid on debt	(105,659)	
Meters purchased by members	30,100	
Contributions for construction	10,353	
Purchase of property and equipment	(192,933)	
Settlement cost	(50,000)	
Reduction in reserve account	159,512	
Loan cost	<u>(24,766)</u>	
Net cash used by capital and related financing activities		(759,616)
Cash flows from investing activities:		
Interest received	<u>2,058</u>	
Net cash provided by investing activities		<u>2,058</u>
Net increase in cash and cash equivalents		(215,023)
Cash, beginning of year		<u>933,777</u>
Cash, end of year		\$ <u><u>718,754</u></u>

(Continued)

CONSOLIDATED RURAL WATER DISTRICT NO. 1
Shawnee County, Kansas

STATEMENT OF CASH FLOWS
(Continued)
Year Ended December 31, 2012

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 148,309
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	331,665
Amortization	23,742
Changes in assets and liabilities:	
Accounts receivable	9,692
Inventory prepaids	(3,651)
Payables	<u>32,778</u>
Net cash provided by operating activities	\$ <u>542,535</u>

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED RURAL WATER DISTRICT NO. 1
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

1 - Summary of Significant Accounting Policies

Entity and Basis of Accounting

The District was organized under Kansas law and is accounted for as an enterprise fund using the accrual basis of accounting. The District is not included in any other governmental "reporting entity" as defined in GASB Pronouncements, since Board members are elected by the patrons of the District, have decision-making authority, power to designate management, the ability to influence operations and primary accountability for fiscal matters.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all savings and certificates of deposit are considered to be cash equivalents.

Inventory

Inventory consists of pipe and parts and is recorded at historical costs.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized as income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.

Membership Equity

The sales price of benefit unit certificates is considered a contribution to the District. Contributions for meter setbacks and extensions are also considered a contribution to the District. These are recorded as "membership and new service." These amounts are in the net assets of the District.

Income Recognition

Water sales are recorded when the District issues the bills. It is not practical to estimate service receivables at year end and such amounts are not material to the financial statements taken as a whole. Delinquent accounts are turned off after attempts to collect. No allowance for doubtful accounts is maintained as accounts are charged off when considered uncollectible.

CONSOLIDATED RURAL WATER DISTRICT NO. 1
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Annual Leave

Under terms of the District's personnel policy, District employees are granted annual leave in varying amounts. At year end, the District estimates that any unpaid vacation pay is immaterial to the financial statements taken as a whole.

Income Taxes

Consolidated Rural Water District No. 1, Shawnee County, Kansas, is a tax-exempt entity and not subject to income taxes at either the federal or State level.

Budget

The District has not been required to operate under the Kansas budget laws.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates.

2 - Property, Plant and Equipment

Property, plant and equipment, together with annual depreciation and amortization rates, consisted of the following:

	Life in Years	December 31, 2011	Additions	December 31, 2012
Land	-	\$ 36,695	\$ -	\$ 36,695
Buildings	50	52,552	-	52,552
Distribution system	20 - 50	5,871,319	191,983	6,063,302
Tanks and towers	10 - 50	1,449,119	-	1,449,119
Wells and pumphouse	25 - 50	354,245	-	354,245
Easements	50	7,866	-	7,866
Office equipment	3 - 5	50,053	949	51,002
Equipment	5 - 10	14,234	-	14,234
		<u>\$ 7,836,083</u>	<u>\$ 192,932</u>	<u>\$ 8,029,015</u>

CONSOLIDATED RURAL WATER DISTRICT NO. 1
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - Property, Plant and Equipment (Continued)

Depreciation expense for 2012 was \$ 331,665.

3 - Long-Term Debt

Long-term debt consists of the Water System Revenue Bonds in the amount of \$ 1,990,000 with a range of maturity from 2013 to 2021, with an interest rates from 1.55% to 2.25%, payable semi-annually from utility revenues and secured by these revenues. The proceeds from this issue was used to retire the KDHE loan.

The following is a detailed listing of the District's long-term debt:

<u>Debt Issue</u>	<u>Date Issued</u>	<u>Original Amount</u>	<u>Interest Rates</u>
Installment promissory notes:			
KDHE	August 1, 2002	\$ 3,595,595	4.45%
Bank	September 18, 2007	450,000	7.5%
Revenue bonds Series 2012	August 15, 2012	1,990,000	1.55 to 2.25%

The following is a summary of changes in long-term debt for the year ended December 31, 2012:

<u>Debt Issue</u>	<u>Beginning Principal Outstanding</u>	<u>Additions to Principal</u>	<u>Reductions of Principal</u>	<u>Ending Principal Outstanding</u>
Installment promissory notes:				
KDHE	\$ 2,277,810	\$ -	\$ 2,277,810	\$ -
Bank	298,413	-	298,413	-
Revenue bonds:				
Series 2012	<u>-</u>	<u>1,990,000</u>	<u>-</u>	<u>1,990,000</u>
	<u>\$ 2,576,223</u>	<u>\$ 1,990,000</u>	<u>\$ 2,576,223</u>	<u>\$ 1,990,000</u>

CONSOLIDATED RURAL WATER DISTRICT NO. 1
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - Long-Term Debt (Continued)

Maturities for the Revenue Bonds are as follows:

	<u>Principal</u>	<u>Interest/ Service Charge</u>
2013	\$ 225,000	\$ 38,036
2014	230,000	34,506
2015	235,000	29,331
2016	240,000	23,988
2017	245,000	19,007
2018 - 2021	<u>815,000</u>	<u>31,366</u>
	1,990,000	\$ <u>176,234</u>
Less: current maturities	<u>110,000</u>	
	<u>\$ 1,880,000</u>	

4 - Deposits

Kansas State Statutes authorize the District, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements and U.S. Treasury bills and notes. Statutes also require that collateral pledged must have a fair market value equal to 100% of the deposits and investments, less insured amounts, and must be assigned for the benefit of the District.

At December 31, 2012, the carrying amount of the District's deposits, including certificates of deposit, was \$ 918,802 and the bank balance was \$ 919,271, of which \$ 250,000 was covered by federal deposit insurance and pledged security with an approximate market value of \$ 711,300 held by the counter party but not in the District's name.

CONSOLIDATED RURAL WATER DISTRICT NO. 1
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

5 - Defined Benefit Pension Plan

Plan description. The District participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Topeka, Kansas 66603) or by calling 1-800-228-0366.

Funding policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for calendar year 2012 was 7.34%. The District employer contributions to KPERS for the years ending December 31, 2012, 2011 and 2010 were \$ 10,900, \$ 10,081, and \$ 9,808, respectively, equal to the required contributions for each year.

6 - Compliance with Kansas Statutes

Bank deposits did not exceed depository security at December 31, 2012.

7 - Restricted Assets

Restricted assets consisted of the following at December 31, 2012:

Bond reserve account	\$ <u>200,048</u>
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CONSOLIDATED RURAL WATER DISTRICT NO. 1
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - Adequacy of Rates Charged Customers for Services

The financial statements, together with the requirements of the bond issue, indicate that the District has met the requirements for reserve and debt service. At December 31, 2012, the District was serving 1,678 customers.

9 - Subsequent Events

Management has reviewed subsequent events through January 25, 2013.

SUPPLEMENTARY INFORMATION

CONSOLIDATED RURAL WATER DISTRICT NO. 1
SHAWNEE COUNTY, KANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

The discussion and analysis of Consolidated Rural Water District No. 1, Shawnee County, Kansas' financial performance provides an overview of the District's financial activities for the year ended December 31, 2012. Please review it in conjunction with the District's financial statements.

Financial Highlights

Total net worth increased by \$ 111,891 to \$ 2,944,149 of which \$ 1,980,664 was in capital assets and \$ 200,048 was restricted for debt service. The balance of \$ 763,437 was unrestricted.

The income from operations was approximately \$ 148,309. Operating revenues were approximately \$ 1,398,973 and operating expenses were approximately \$ 1,250,0664

The District's cash decreased \$ 215,023 during the year.

The District's long-term debt decreased \$ 586,223 during the current period with an outstanding balance of \$ 1,990,000.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances.

Financial Statements

The Statement of Net Assets, Statement of Activities and Statement of Cash Flows report information about the financial position and changes during the year. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These statements report the District's net assets, changes in net assets and the cash flow to provide a measurement of the District's financial health or position. You will need to consider other financial and non-financial factors, however, such as changes in the District's area and economy to assess the overall health of the District.

The Notes to Financial Statements provides additional information that is essential to a full understanding of the data provided in the financial statements.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the governmental finances. Questions concerning any of the information should be addressed to the District at P. O. Box 159, 150 W. 9th Street, Auburn, Kansas 66402.



MIKE DAWSON
Manager

CONSOLIDATED RURAL WATER DISTRICT NO. 1
Shawnee County, Kansas

INSURANCE COVERAGE
December 31, 2012

The District insurance policy is provided by Anderson Peck, with a premium of \$ 18,455 and covers the period November 5, 2012 to November 5, 2013. It provides the following coverage:

Building and personal property	\$	3,029,501
General liability		500,000/1,000,000
Contractors equipment		25,000
Linebacker		1,000,000/1,000,000
Employee theft		100,000
Equipment		32,726
Auto liability		500,000
Inventory		164,600
Worker's Compensation		500,000

See accompanying independent auditor's report.